

Study Guide Score. . . 35 Name _____

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CHAPTER 12

Managing a Small Business

STUDY GUIDE

PART I

Directions: Indicate whether each statement below is correct or incorrect on the line under *true* or *false* at the right.

	TRUE	FALSE	For Scoring
1. More than one-half of all new businesses will survive five years or more.	_____	_____	1. _____
2. Minority business ownership has nearly doubled since the early 1980s.	_____	_____	2. _____
3. Every business begins with an idea.	_____	_____	3. _____
4. In order to be successful, you should have previous work experience in the same type of business you plan to start.	_____	_____	4. _____
5. A team gives a new company its general direction.	_____	_____	5. _____
6. Most information needed to start a business has not been researched, so it will be hard to find that information in libraries, universities, and small business assistance centers.	_____	_____	6. _____
7. A business plan is needed when a business owner does all of the planning and financing by himself or herself but not when others are involved in that process.	_____	_____	7. _____
8. The first step in designing a business plan is developing a "game plan."	_____	_____	8. _____
9. Long-term financing is the money needed to pay for current operating activities of a business.	_____	_____	9. _____
10. While entrepreneurs are often successful at starting a business, they are not always good at running a business.	_____	_____	10. _____

PART II

Directions: An important term has been omitted from each of the following statements. In the space provided at the right, fill in the best term to complete the sentence.

	ANSWERS	For Scoring
1. The most important step in starting a business is _____.	_____	1. _____
2. Key features of a _____ are a general description of the company, the qualifications of the owner(s), a description of the product or services, and a financial plan.	_____	2. _____
3. _____ financing is obtained for a period of less than a year and often for one or two months.	_____	3. _____

4. A _____ is owned and financed by shareholders.
5. The _____ is responsible for developing the business plan.

For
Scoring

4. _____

5. _____

PART III

Directions: Indicate your answer to each of the following questions by placing a check mark on the line under *yes* or *no* at the right.

	YES	NO	For Scoring
1. Is small-business ownership risky?	_____	_____	1. _____
2. Do small-business owners often spend more hours in the business than are necessary just because they enjoy the work?	_____	_____	2. _____
3. Do women make up 5 percent of all small-business owners?	_____	_____	3. _____
4. Can minority-owned businesses be successful with the right opportunities and resources?	_____	_____	4. _____
5. Is a business easy to start?	_____	_____	5. _____
6. Do most businesses need financial help when they first start up?	_____	_____	6. _____
7. Is timing an important factor in starting a business?	_____	_____	7. _____
8. Do small businesses usually succeed without a business plan?	_____	_____	8. _____
9. Are land, buildings, and equipment considered resources?	_____	_____	9. _____
10. Does more than one person supply the money in a proprietorship?	_____	_____	10. _____

PART IV

Directions: Respond to the following statements by selecting *start-up*, *short-term*, or *long-term* in the column on the right to identify the type of financing being described.

	start-up	short-term	long-term	For Scoring
1. Projected inventory costs	_____	_____	_____	1. _____
2. The land small businesses are built upon	_____	_____	_____	2. _____
3. Money used to open a business	_____	_____	_____	3. _____
4. A license renewed each year to operate a small business	_____	_____	_____	4. _____
5. Raw materials used to produce the first products of a new business	_____	_____	_____	5. _____
6. Equipment purchased after a business has begun operating .	_____	_____	_____	6. _____
7. Equipment needed for the beginning operations of a business	_____	_____	_____	7. _____
8. Money used to pay for regular operating expenses of a business	_____	_____	_____	8. _____
9. Building where a small business is permanently located	_____	_____	_____	9. _____
10. Supplies that are used constantly throughout the operation of a business	_____	_____	_____	10. _____

ACTIVITIES

Analyzing Personal Qualities

Most people at some time in their lives consider the possibility of owning a small business. Many do not go beyond the first thoughts but others continue on to develop an idea and complete some initial planning. A smaller percentage get the opportunity to actually open the doors of their new businesses. Yet the risks are great. As you learned in this chapter, as many as half of all new businesses may not survive beyond the first five years.

The decision to become a small-business owner must be made carefully and objectively. Before time is spent and resources are committed, the prospective business owner needs to review the elements of small business success. This activity allows you the chance to consider those elements and determine whether you are prepared for a career as a small-business owner. Answer each question honestly and with careful thought.

	YES	NO
1. I can usually motivate myself to take actions and complete tasks.	_____	_____
2. I am willing to take reasonable risks to achieve important goals.	_____	_____
3. I often continue with a task even if I am initially unsuccessful.	_____	_____
4. I try to discover unique solutions when facing challenges and problems.	_____	_____
5. I prefer to take action myself rather than wait for direction from others.	_____	_____
6. I am willing to spend many hours in a day or week to complete work that is important to me.	_____	_____
7. I am able to organize activities and plan my time to insure that the activities are completed well.	_____	_____
8. I am concerned about the quality of my work.	_____	_____
9. I have worked in a business or plan to work in a business for several years before starting my own business.	_____	_____
10. I have studied business principles and have an understanding of management, finance, marketing, and other areas.	_____	_____
11. I regularly develop and follow budgets when planning the use of my financial resources.	_____	_____
12. I have been successful in communicating important ideas through written and spoken communications.	_____	_____
13. I carefully listen to others and consider how their ideas can help me.	_____	_____
14. I save money in order to invest in my business ideas.	_____	_____
15. I have creatively identified and brought together resources to implement a plan or solve a problem.	_____	_____

Applying Math Skills

A high school business class conducted a survey to determine who were the owners of small businesses in their community. A business directory was used to identify business owners. Then 856 survey forms were mailed representing 10 percent of all businesses identified. Of the 528 respondents, 460 identified themselves as small-business owners. An analysis of the survey answers provided by the small-business owners revealed the following data:

Gender:		Age:	
Male	310	under 25	88
Female	150	26-40	160
		41-55	114
		over 55	98
Ethnicity:		Education:	
White	299	no degree	66
Black	52	high school grad.	220
Hispanic	65	college grad.	174
Asian	33		
other	11		

1. What is the total number of businesses in the community? _____
2. What percentage of businesspeople surveyed returned their survey forms? _____
3. What percentage of all respondents are small-business owners? _____
4. What percentage of small-business owners responding to the survey are:

Male _____ Female _____

White _____ Black _____ Hispanic _____ Asian _____ Other _____

under 25 _____ 26-40 _____ 41-55 _____ over 55 _____

no degree _____ high school grad. _____ college grad. _____

Applying Business Knowledge

A business plan provides written direction to guide the development and operation of a business. A complete business plan is organized into several sections. The column on the left lists the major sections of a business plan. The column on the right lists topics that would be included in those sections. Demonstrate your understanding of the business plan by writing the letter corresponding to the appropriate section of a business plan in which the topic would be discussed.

Sections of the Business Plan	Topics Discussed In a Business Plan
A. Description of the Business	1. budgets
B. Description of the Competition	2. ownership structure
C. Customer Analysis	3. sales forecasts
D. Operations Plan	4. characteristics of the industry
E. Marketing Plan	5. human resource plans
F. Financial Plans	6. schedule of promotional activities

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CHAPTER 13

Managing Human Resources

STUDY GUIDE

PART I

Directions: Indicate whether each statement below is correct or incorrect by placing a check mark on the line under *true* or *false* at the right.

	TRUE	FALSE	For Scoring
1. Employees can make a difference in the success or failure of a business.	_____	_____	1. _____
2. Large organizations usually have a small number of managers who make all the decisions.	_____	_____	2. _____
3. An employee should be hired when the work of the employee will contribute more to the company's profitability than it will cost.	_____	_____	3. _____
4. The hours and days worked by part-time employees are very hard to change.	_____	_____	4. _____
5. People employed part-time typically work one job, and their loyalty is deeply vested in the business they work for.	_____	_____	5. _____
6. Young people and older people are most commonly hired by large corporations rather than small businesses.	_____	_____	6. _____
7. Business owners should be aware of several good sources to locate potential employees for their businesses.	_____	_____	7. _____
8. Compensation is direct payment to an employee for work completed.	_____	_____	8. _____
9. Time off for vacations is a popular benefit for employees.	_____	_____	9. _____
10. Large businesses often have training departments and spend hundreds of thousands of dollars each year on employee training.	_____	_____	10. _____

PART II

Directions: An important term has been omitted from each of the following statements. In the space provided on the right, fill in the best term to complete the sentence.

	ANSWERS	For Scoring
1. Each _____ is important to a small business.	_____	1. _____
2. A _____ employee is one to whom the company makes a long-term commitment.	_____	2. _____
3. The goal in hiring a new employee is to find someone with skills that benefit the company—skills that are not available from _____ employees.	_____	3. _____

4. Skilled people are often willing to work for fewer _____
to obtain advantages of a small company environment. . . . _____
5. _____ employees usually expect companies to offer
insurance plans including health, life, dental, and
disability insurance. . . . _____

For
Scoring

4. _____

5. _____

PART III

Directions: Indicate your answer to each of the following questions by placing a check mark on the line under *yes* or *no* at the right.

	YES	NO	For Scoring
1. In a small business, is the impact of one person very noticeable to customers?	_____	_____	1. _____
2. Are employees in small businesses often given responsibility for many duties that would be considered management tasks?	_____	_____	2. _____
3. Do part-time employees work more hours than full-time employees by working either more hours per day or more days per week?	_____	_____	3. _____
4. Do most people prefer to work part-time?	_____	_____	4. _____
5. Do small businesses offer an advantage to some employees by providing a convenient work location and a pleasant place to work?	_____	_____	5. _____
6. Is money one reason people work?	_____	_____	6. _____
7. Are time wages and straight salary types of compensation based on the amount or quality of work completed?	_____	_____	7. _____
8. Are piece rates most often used in retail and department stores?	_____	_____	8. _____
9. On average, does an additional 20 to 40 percent of an employee's wage pay for fringe benefits?	_____	_____	9. _____
10. Do most small businesses offer many more benefits to employees than the law requires?	_____	_____	10. _____

PART IV

Directions: In the space provided on the right, indicate whether the statement describes *full-time*, *part-time*, *temporary*, or *permanent* employment.

	ANSWERS	For Scoring
1. An employee who works just one Christmas season.	_____	1. _____
2. An employee who receives benefits such as health insurance, vacation time, and profit sharing.	_____	2. _____
3. An employee who works every Monday and Tuesday for three hours.	_____	3. _____
4. An employee who works weekends only.	_____	4. _____
5. An employee who plans to work for a company for many years.	_____	5. _____

ACTIVITIES**Applying Critical Thinking Skills**

When a business is large enough to begin hiring employees, the owner will need to decide whether to hire permanent or temporary employees and whether those employees will be full-time or part-time. Demonstrate your understanding of the four categories of employment by completing the following chart. List one reason supporting and one reason opposing hiring each of the categories of employees.

Employee Category	Supporting Reason	Opposing Reason
permanent		
temporary		
full-time		
part-time		

Applying Math Skills

The chart lists a number of employees and describes their compensation plans. Calculate the total amount of compensation each employee would earn based on the information given.

Employee	Compensation Plan	Compensation Information	Total Compensation
A. Hernandez	straight salary	38 hours @ \$5.65/hour	
B. Abbrey	straight salary	55 hours @ \$6.50/hour and 1-1/2 times the salary for hours worked over 40	
C. Hoshida	commission	\$1,560 sales @ a commission rate of 15%	
D. Witherspoon	commission	\$23,220 @ a commission rate of 2.5%	
E. Abraham	piece rate	360 units @ 75 cents/unit	
F. Timberline	piece rate	750 units @ 15 cents/unit and 150 units @ 18 cents/unit	
G. Horowitz	base plus incentive	\$125 base plus 3% of all sales over \$26,500; sales = \$38,900	
H. O'Donnell	base plus incentive	\$340 plus \$2.50 for each new customer; 24 new customers obtained	

Applying Thinking and Information Skills

Businesses today offer a variety of fringe benefits to their employees. Each benefit offers a unique value to employees. Some businesses give employees choices. Employees select benefits that meet their specific needs. Below is a list of common fringe benefits. For each, develop a statement that describes the unique value of the benefit.

Fringe Benefit	Value to Employees
1. vacation time	1. _____ _____
2. health insurance	2. _____ _____
3. life insurance	3. _____ _____
4. uniforms/clothing allowance	4. _____ _____
5. flextime (employee determines the beginning and ending of the work day)	5. _____ _____

Name _____

- | | |
|---|-----------|
| 6. employee cafeteria with low-cost menus | 6. _____ |
| 7. day care for employees' children | 7. _____ |
| 8. recreation facility | 8. _____ |
| 9. retirement income | 9. _____ |
| 10. employee discounts for purchase of company products | 10. _____ |

If you had a choice of any three of the fringe benefits listed above, which ones would you choose?

Why are those benefits most important to you? _____

Applying Information and Math Skills

Jacob Warez has owned and operated The Appliance Store for ten years. The business is very successful, and he now employs 50 people in several job categories: office/clerical, sales, delivery, appliance service, and management. Jacob believes that well-trained employees contribute to the success of his business. Therefore, he offers training to all new employees and encourages experienced employees to attend training programs offered by the local community college, by manufacturers, and by the Small Business Development Center at a nearby university. At the end of the year, he reviewed his records and identified the following data related to the amount and cost of employee training.

Employee Category	Number of Employees	Total Training Hours	Total Cost of Training
New Employees	4	48	\$ 768
Office/Clerical	8	160	\$ 4,160
Sales	13	312	\$ 9,984
Delivery	6	66	\$ 1,188
Appliance Service	18	684	\$58,140
Management	5	90	\$ 8,550
TOTAL			

- (a) Complete the chart by determining the total training hours completed by all employees and the total cost of training.

- (b) Calculate the average hours of training received by each employee, and the average cost of training per employee in each employee category. Write your answers in the table below:

Employee Category	Average Hours Per Employee	Average Cost Per Employee
New Employee	_____	_____
Office/Clerical	_____	_____
Sales	_____	_____
Delivery	_____	_____
Appliance Service	_____	_____
Management	_____	_____

- (c) For the 54 employees, what was the average number of training hours for each employee and the average cost of training for each employee?

average training hours

average training costs

- (d) The total payroll expenses of The Appliance Store for the year were \$1,300,000. What percentage of payroll expenses was spent on employee training? _____

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CHAPTER 14

Maintaining Financial Information

STUDY GUIDE

PART I

Directions: Indicate whether each statement below is correct or incorrect by placing a check mark on the line under *true* or *false* at the right.

	TRUE	FALSE	For Scoring
1. A growing business may need larger facilities, and more employees may need to be hired.	_____	_____	1. _____
2. In order to make a profit, the revenues of a small business must be greater than its expenses.	_____	_____	2. _____
3. After a new franchise opens, the franchisor no longer provides help to the franchisee.	_____	_____	3. _____
4. The most important step in financial planning is developing a budget.	_____	_____	4. _____
5. A large business that has operated for several years may have many specialized budgets.	_____	_____	5. _____
6. A new business does not need a cash budget.	_____	_____	6. _____
7. Few unique skills are needed by the person responsible for preparing business budgets, so it is easy for anyone to do it.	_____	_____	7. _____
8. Once a business becomes profitable, it is no longer necessary to maintain financial records.	_____	_____	8. _____
9. The age of personal computers has made financial record keeping more efficient and accurate.	_____	_____	9. _____
10. Business owners review financial statements carefully to determine how their businesses are performing.	_____	_____	10. _____

PART II

Directions: An important term has been omitted from each of the following statements. In the space provided on the right, fill in the best term to complete the sentence.

	ANSWERS	For Scoring
1. Few businesses are profitable in the first _____.	_____	1. _____
2. After several years of operation, the task of identifying sources of _____ and types of _____ will not be as difficult.	_____	2. _____
3. _____ provide detailed plans for financial needs of individuals and businesses.	_____	3. _____

		For Scoring
4. A ____ budget plans income and expenses from the beginning of the business until it becomes profitable.	_____	4. _____
5. The ____ budget is usually planned for six months or a year.	_____	5. _____
6. A ____ budget anticipates that cash will come into a business and that the cash will be paid out during each week or month of operation.	_____	6. _____
7. ____ records identify the type and quantity of products available for sale.	_____	7. _____
8. Financial statements are reports that summarize the financial ____ of a business.	_____	8. _____
9. ____ is earned when income is greater than expenses.	_____	9. _____
10. ____ sheets and ____ statements are used to analyze the financial performance of the business.	_____	10. _____

PART III

Directions: Indicate your answer to each of the following questions by placing a check mark on the line under *yes* or *no* at the right.

	YES	NO	For Scoring
1. Is the primary purpose of a business to anticipate sources and amounts of income?	_____	_____	1. _____
2. Do franchisors expect businesses to succeed?	_____	_____	2. _____
3. Can a budget be compared to a road map in that it identifies where a business is going?	_____	_____	3. _____
4. Do cash records identify the credit purchases and sales of a business?	_____	_____	4. _____
5. Do payroll records contain information on the earnings of all employees of the company?	_____	_____	5. _____
6. Can complete computerized accounting systems be purchased at a low cost for use in small businesses?	_____	_____	6. _____
7. Is it possible for a business owner with an understanding of basic accounting concepts to maintain accurate business records?	_____	_____	7. _____
8. Does a balance sheet list the assets, liabilities, and the owner's equity of a business?	_____	_____	8. _____
9. Does a net loss occur when expenses are greater than income?	_____	_____	9. _____
10. Are income statements prepared once every two years for well-established and successful businesses?	_____	_____	10. _____

PART IV

Directions: Small-business owners keep accurate financial records to see how smoothly their businesses are running. In the following problem, match the example on the right that best suits the financial record listed on the left.

		ANSWERS	For Scoring
A. Cash records	1. The cashier took \$20 to purchase stamps	_____	1. _____
B. Asset records	2. Michael Miller charged a shirt on his American Express card	_____	2. _____
C. Payroll records	3. 400 red sweaters are in stock	_____	3. _____
D. Inventory records	4. The business owns three model 486 computers ...	_____	4. _____
E. Accounts receivable	5. \$4,500 is owed to The Rondo Co. for office equipment	_____	5. _____
F. Accounts payable			

C

C

C

ACTIVITIES

Applying Math and Information Skills

Last year, Mickey's Burger Joint earned total revenue of \$475,328. Mickey had been in business for several years, and he thought that his business had done very well. However, Mickey had many expenses to keep his business running. The following table shows how much money Mickey spent within the major expense categories.

<i>Type of Expense</i>	<i>Amount</i>
new equipment	\$ 53,193
advertising	\$ 18,735
food inventory	\$ 35,951
payroll	\$176,932
rent	\$ 15,681
maintenance and supplies	\$ 13,976
taxes and licenses	\$ 12,500

- (a) Did Mickey earn a profit? If so, how much?

- (b) How much more did Mickey spend on equipment than inventory?

- (c) What percentage of revenue did Mickey spend on payroll? maintenance and supplies? rent?

Analyzing Business Information

Financial statements are reports that summarize the financial performance of a business. When used in a business, the balance sheet lists the assets, liabilities, and owner's equity (or capital). The following balance sheet has some information omitted. Complete the balance sheet by calculating the missing amounts and then answer the following questions.

Korie's Kamera Shoppe			
Balance Sheet			
December 31, 20—			
<i>Assets:</i>		<i>Liabilities:</i>	
Cash	\$32,850	Accounts payable	\$31,920
Accounts receivable	_____	Notes payable	_____
Supplies	\$13,920	Loans payable	<u>\$14,670</u>
Equipment	<u>\$18,560</u>	Total liabilities:	\$74,135
		Owner's equity	_____
		Korie's Kamera Shoppe	
		Total liabilities and	
Total assets:	<u>\$83,150</u>	owner's equity:	<u>\$83,150</u>

(a) What percentage of Korie's Kamera Shoppe assets are in cash? accounts receivable?

(b) What percentage of liabilities are the loans payable?

(c) What percentage of Korie's Kamera Shoppe assets is owner's equity?

Applying Business Knowledge

An income statement reports revenues, expenses, and net income or loss from business operations for a specific period of time. The following income statement has some information omitted. Fill in the blanks with the correct answers, and then answer the questions below.

Malique's Munchie Shoppe Income Statement For the Period Ended April 31, 20—			
Operating Revenue		Operating Expenses	
Cash sales	\$10,758	Salaries and wages	\$ 9,850
Charge sales		Advertising	935
Total operating revenue	\$23,725	Rent	3,765
		Utilities	988
		Supplies	1,020
		Other	358
		Total operating expenses	

(a) Did Malique earn a profit or loss? If so, how much?

(b) What was the percentage of net income or loss based on total revenue?

(c) What percentage of revenue was due to cash sales?

(d) What percentage of total operating expenses was the amount paid for utilities? advertising? supplies?

Applying Thinking and Math Skills

All successful businesses maintain accurate financial records. Payroll records are important to a business because they show how much a small business pays each of its employees as well as the total amount spent. Marti's Meat Shop has a payroll budget of \$2,000 per week. The following chart shows the current week's work schedule for each of Marti's employees and their wage rates. Complete the payroll record by calculating the total wages earned by each employee for the week.

Employee	Hours Worked	Wage Rate	Earnings
Patal D'shai	30	\$6.65	_____
Jennifer Barnes	15	\$5.75	_____
Tanisha Ray	25	\$5.35	_____
Chan Lee	20	\$6.25	_____
Martin O'Mally	15	\$5.60	_____
Candace Lewis	35	\$6.25	_____
Andrew Sampson	40	\$6.75	_____
Pauline Roe	40	\$6.85	_____

(a) How much money was spent on payroll for the week? _____

(b) What percentage of the total payroll does each employee earn?

(c) How many hours did all employees work? _____

(d) By how much was the business over or under the budgeted payroll for the week?

(e) New employees start at a wage rate of \$5.50 per hour and are scheduled to work 20 hours per week. How many new employees could the business hire without going over the weekly payroll budget? How much would be spent on the new employees, and how much would be left in the budget?

Applying Math Skills

The basic financial equation is as follows: Revenue - Expenses = Net Income or Loss. For the following problems, fill in the missing amount to complete the financial equation.

	Revenue	Expenses	Income/Loss
1.	\$86,253	\$76,390	_____
2.	\$17,928	_____	\$6,820
3.	\$79,320	\$81,625	_____
4.	_____	\$ 6,390	\$1,237
5.	_____	\$ 8,137	(\$920)